COMMENTS SUBMITTED VIA EMAIL TO:
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RE: 3DEGREES INC. COMMENTS ON VIRGINIA DEPARTMENT OF ENVIRONMENTAL QUALITY'S CO2 BUDGET TRADING PROGRAM PROPOSED REGULATION

Thank you for this opportunity to provide comments to the Virginia Department of Environmental Quality ("DEQ") on the proposed CO2 Budget Trading Program, Part VII of 9VAC5-140 published in the Virginia Register on February 3, 2019.

3Degrees is a leading provider of renewable energy and carbon mitigation products, programs, and services. To this end, 3Degrees serves hundreds of corporate and institutional customers, and works closely with utilities across the country to help them serve thousands of residential customers through our utility green power program partnerships. As a marketer of renewable energy certificates ("RECs") and carbon offsets, 3Degrees works directly with renewable energy generators, including many in Virginia, in order to help them find a market for their RECs. In some cases, 3Degrees' REC purchases have directly and materially contributed to the development of new renewable energy projects in Virginia. 3Degrees is also a leading project developer working with dozens of emissions reductions projects in various sectors to produce high-quality carbon offsets. In 2017, 3Degrees became the first project sponsor to be awarded CO2 offset allowances under the Regional Greenhouse Gas Initiative ("RGGI").

3Degrees applauds the Commonwealth's decision to implement a CO2 Budget Trading Program and join RGGI. This decision will secure the Commonwealth as a national climate leader, and greatly expand the scope of the regional carbon market, improving market efficiency and lowering costs of compliance across the region.

While 3Degrees supports DEQ's proposed regulation, we encourage DEQ to incorporate two specific provisions into the final CO2 Budget Trading Program as outlined in our comments submitted to DEQ on April 9, 2018 and summarized below. These two provisions are key to leaving intact opportunities for private investments in renewable energy and other carbon reduction activities in the Commonwealth.

1. ***3Degrees strongly recommends that DEQ include a voluntary renewable energy market set-aside in the CO2 Budget Trading Program, in line with seven other RGGI states and as outlined in Section XX-5.3(l) of the RGGI Model Rule, in order to foster private demand for renewable energy in Virginia.***

Private demand for renewable energy in Virginia (sometimes referred to as the "voluntary market") is evidenced by the success of renewable energy programs offered by both IOUs in the Commonwealth, the introduction of new renewable energy purchase options such as community solar, and the growing demand from corporate purchasing of renewable energy in the form of Green Tariffs that directly support renewable energy generation from Virginia. These purchasing options are often pursued by customers who are motivated by desires to address climate change by supporting local Virginia renewable energy development and accelerating grid decarbonization.

With the implementation of the CO2 Budget Trading Program, the emissions reduction benefit of the voluntary market risks being eroded. The CO2 Budget Trading Program as written does not provide any avenues for voluntary market customers to ensure that their renewable energy purchase contributes to emissions reductions beyond regulation. As such, a customer purchasing renewable energy generation from Virginia once the CO2 Budget Trading Program is in place will no longer be able to credibly claim that this renewable energy leads to an avoided emissions benefit on the grid (by displacing emitting resources) beyond what is required by the CO2 Budget Trading Program.

In order to ensure that the renewable energy contributes to emissions reductions beyond regulation, carbon allowances must be paired with the renewable energy in an amount equal to the avoided CO2 emissions associated with the generation of the renewable energy. The Voluntary Renewable Energy Market Set-aside ("renewable energy set-aside") allows allowances to be paired with voluntary market renewable energy at no added cost to the voluntary market. In order to support private investments in renewable energy, seven of the existing RGGI states and California have all implemented a renewable energy set-aside. RGGI provides language for a renewable energy set-aside mechanism in Section XX-5.3(l) of the RGGI Model Rule. This mechanism sets aside roughly 2% of the total allowances in a state in any given year and makes them available for free to be paired with voluntary renewable energy purchases in the state.

The voluntary market is the primary way that demand for high quality renewable energy remains in Virginia.

The voluntary market is currently the primary way that high quality renewable energy remains in the Commonwealth; without a set-aside, in-state support for voluntary renewable energy will be further restricted. Many local projects risk losing voluntary market support if the renewable energy set-aside is not included in the CO2 Budget Trading Program. 3Degrees has worked closely with a number of small-scale and residential solar and wind projects in Virginia, supporting the projects by facilitating the sale of the premium RECs from these projects for use by voluntary customers. Through these transactions and other sales, 3Degrees has purchased and facilitated voluntary customer purchases of RECs representing over 340,000 MWh of Virginia-sited renewable energy since 2009. From our experience, the voluntary market is generally providing funding for projects that would not receive funding from compliance REC markets, and often providing more funding per MWh. In some cases the projects would be not financially viable without this revenue stream. If the voluntary renewable energy set-aside is not included in the CO2 Budget Trading Program, there would no longer be an opportunity for 3Degrees to support projects of this kind in Virginia. 3Degrees urges the DEQ to continue to encourage private capital investing in renewable energy in the Commonwealth by implementing the set-aside mechanism.

Without a set-aside, customers in Virginia seeking high quality voluntary renewable energy options will not be able to support Virginia or RGGI-sited generation.

The renewable energy set-aside will lead to continued voluntary demand in Virginia for in-state and RGGI-located generation and allow the generation to continue to be eligible for Green-e Energy certification. In addition to the avoided emissions benefit being critically important in the private investment decisions of many voluntary purchasers, it is also a requirement of Green-e Energy certification. Green-e Energy certifies tens of millions of megawatt hours (MWh) of renewable energy every year, including renewable energy generated in Virginia, and, as the only certification for the voluntary renewable energy market in the United States, is the de facto standard for private purchasing of renewable energy in North America. Where states or provinces have introduced cap-and-trade regulation without a renewable energy set-aside, Green-e has required that Green-e Energy certified renewable energy from these states or provinces be matched with purchased allowances equal to the generation's emissions reduction benefit on the grid. This adds a significant cost to renewable energy from these states or provinces, such that they generally exit the Green-e / voluntary market. Where private purchasing of allowances is not possible, as is the case in RGGI states, there are no avenues to reclaim the avoided emissions benefit. In Delaware, the only RGGI state that has not included the voluntary set-aside, Delaware residents are not able to purchase Green-e Energy certified renewable energy from generation located in Delaware or neighboring RGGI states, severely limiting options for voluntary renewable energy procurement.

The set-aside mechanism is important to continue to encourage private investment in renewable energy in the Commonwealth, which will promote local jobs, local investments, and further reduce greenhouse gas emissions in the Commonwealth.

2. ***3Degrees encourages inclusion of regulation relating to CO2 Emissions Offset Projects from Virginia, as outlined in Subpart XX-10 of the RGGI Model Rule.***

3Degrees encourages DEQ to include Subpart XX-10 of the RGGI Model Rule in the CO2 Budget Trading Program regulation. This section will allow the issuance CO2 Emissions Offset Projects from Virginia-sited projects. High-quality carbon offsets can be an important tool for a successful and economic cap-and-trade program. Carbon offsets will be an important tool for achieving emissions reductions cost effectively while encouraging and stimulating innovative climate solutions within the Commonwealth of Virginia. CO2 Emissions Offset Projects can address emissions reductions in uncapped sectors and provide other co-benefits to the Commonwealth.

3Degrees appreciates this opportunity to provide comments to DEQ as the department seeks to develop an effective market-based carbon policy. By including the two sections we have outlined above, the CO2 Budget Trading Program can lead to the desired results while also encouraging and preserving opportunities in the Commonwealth for private investment in renewable energy and carbon mitigation projects. We look forward to continuing to engage with DEQ throughout this process and welcome the opportunity to answer any questions on our proposal or discuss our comments in more detail.

Best regards,

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